ANNUAL REPORT

OF THE

PRINCE EDWARD ISLAND

LOTTERIES COMMISSION

FOR THE YEAR ENDING

MARCH 31, 2004

105-02794/

TO HIS HONOUR

THE HONOURABLE J. LEONCE BERNARD
Lieutenant Governor of the Province of
Prince Edward Island

May It Please Your Honour:

In accordance with the Lotteries Commission Act [R.S.P.E.I. 1988, Cap. L-17], I respectfully submit herewith, for the information of Your Honour and the Legislature of Prince Edward Island, the Annual Report of the Prince Edward Island Lotteries Commission for the fiscal year ended 31 March, 2004.

I have the honour to be Sir:

Your Obedient Servant,

Mitch Murphy

Mitch Murphy, Chair
P.E.I. Lotteries Commission

COMMISSION DES LOTERIES DE L'ÎLE-DU-PRINCE-ÉDOUARD

RAPPORT ANNUEL

Relatif à l'exercice financier se terminant le 31 mars 2004

APERÇU DE L'EXERCICE FINANCIER 2003-2004

HISTORIQUE

En 1976, la Commission des loteries de l'Île-du-Prince-Édouard a été établie en vertu de la *Loi sur la Commission des loteries* (Lotteries Commission Act). Le mandat de la Commission est de développer, d'organiser, d'exploiter, de diriger et de gérer le système de loterie pour le compte de la province. À son tour, la Commission a délégué ces tâches à son agent, la Société des loteries de l'Atlantique

En 1976, la Société des loteries de l'Atlantique a été constituée en société en vertu de la *Loi canadienne sur les sociétés par actions* (Canada Business Corporation's Act). Les quatre provinces de l'Atlantique en sont copropriétaires. Chaque province possède des dispositions législatives portant sur les jeux de hasard et d'argent, y compris des règlements qui s'y appliquent. La Société des loteries de l'Atlantique se doit d'observer ces dispositions en ce qui concerne l'exploitation des jeux de loterie dans chaque province.

RENDEMENT FINANCIER

Au cours de l'exercice financier 2003-2004, la province de l'Île-du-Prince-Édouard a reçu 18 122 221 $ par l'entremise des programmes de loterie de la Société des loteries de l'Atlantique. Ces fonds sont déposés dans les recettes générales de la province et serviront à subventionner le grand nombre des services provinciaux essentiels offerts aux Insulaires.

Le revenu de loterie de 18 122 221 $ rapporté au cours de l'exercice 2003-2004 représente une augmentation de 4,5 % sur le revenu de 17 345 112 $ de l'exercice de 2002-2003. La hausse de 4,5 % du revenu en 2003-2004 reflète une baisse du revenu du programme traditionnel de billets par rapport à l'année dernière et une hausse du revenu du programme de loterie vidéo. La vente de billets en 2002-2003 avait généré un revenu gonflé en raison d'un nombre élevé d'importants gros lots du Super 7, ce qui a éveillé un intérêt considérable au jeu à l'échelle régionale et nationale. Cependant, le niveau s'est rétabli à la normale en 2003-2004.

La hausse du revenu du programme de loterie vidéo en 2003-2004 est attribuable à la baisse des coûts d'exploitation. Au cours de l'exercice financier 2003-2004, la Société des loteries de l'Atlantique a pu bénéficier d'une baisse des coûts de commission parce qu'elle était propriétaire et faisait l'exploitation des appareils de loterie vidéo pendant les douze mois consécutifs. De plus, la participation étendue de la Société des loteries de l'Atlantique au

programme a aussi créé la possibilité de réduire d'autres coûts d'exploitation, et par ce moyen accroître le bénéfice net.

Au cours de l'exercice 2003-2004, les Insulaires ont pu profiter des retombées des jeux de hasard et d'argent à l'Île-du-Prince-Édouard, en plus des services provinciaux directement subventionnés par les dividendes de la loterie. Les Insulaires ont reçu presque 19,4 millions de dollars sous forme de lots gagnés aux jeux à billets au cours de l'année. Six autres millions de dollars ont été versés sous forme de commissions aux détaillants et aux propriétaires d'établissements au cours de l'année. Ces derniers, qui sont en grande majorité des PME, sont répartis dans l'ensemble de la province.

Le *Tableau 1* fournit des données comparatives sur le profit brut selon le type de programme pour les exercices 2002-2003 et 2003-2004 à l'Île-du-Prince-Édouard.

COURSES ATTELÉES

La Commission des loteries a continué de financer l'industrie des courses attelées à l'Île-du-Prince-Édouard au cours de l'exercice 2003-2004 en versant 933 600 $ de contributions provenant des revenus de loterie. L'industrie des courses attelées trouve place dans l'histoire et la culture de l'Île-du-Prince-Édouard, et fait partie intégrante de l'économie provinciale. Elle occasionne des effets positifs sur les collectivités rurales et urbaines de l'Île-du-Prince-Édouard.

En septembre 2003, l'ouragan Juan a causé des dommages considérables au *Charlottetown Driving Park*. À plusieurs endroits, les dommages causés à l'infrastructure déjà vieillie étaient irréparables, donc on a dû en remplacer plusieurs parties à un coût élevé. En raison de ces dépenses, conjuguées à la situation financière précaire de l'industrie, des parties intéressées aux courses attelées ont abordé le gouvernement provincial et la Société des loteries de l'Atlantique avec une proposition de considérer un modèle de jeux de course semblable à celui que l'on trouve en Ontario et dans d'autres provinces. Selon le modèle proposé, on moderniserait considérablement les établissement de pistes de course dans la province et on installerait des appareils électroniques de loterie aux sites des courses. Une partie des revenus provenant des appareils de loterie serait utilisée pour la modernisation et l'entretien constant des établissements de pistes et pour augmenter les capitaux propres dans l'espoir de développer une industrie viable. À la clôture de l'exercice, plusieurs parties prenantes de l'industrie des courses attelées discutaient et étudiaient la proposition de jeux pour les pistes de course de l'Île-du-Prince-Édouard.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

ANNUAL REPORT

For the Fiscal Year Ending 31 March 2004

OVERVIEW FOR FISCAL YEAR 2003-2004

BACKGROUND

The P.E.I. Lotteries Commission was established in 1976 under the *Lotteries Commission Act*. The Commission's mandate is to develop, organize, undertake, conduct and manage lottery schemes on behalf of the Province. The Commission has, in turn, delegated these duties to its agent, the Atlantic Lottery Corporation.

The Atlantic Lottery Corporation was incorporated in 1976 under the *Canada Business Corporation's Act*. The Corporation is jointly owned by the four Atlantic Provinces. Each Province has lottery and gaming legislation in place, with supporting regulations, which must be complied with by the Atlantic Lottery Corporation in its operation of lottery games in each jurisdiction.

FINANCIAL PERFORMANCE

Prince Edward Island's share of revenue generated through the operation of lottery programs by the Atlantic Lottery Corporation during fiscal 2003-04 was $18,122,221. These funds are placed in the Province's general revenues, where they are used to fund the many services Islanders require and expect from their Provincial Government.

The $18,122,221 in lottery revenue received in fiscal 2003-04 represents an increase of approximately 4.5 percent over the fiscal 2002-03 total of $17,345,112. The 4.5% growth in revenue in 2003-04 reflects a decrease in Traditional (ticket) Program revenue to more historical levels and a growth in Video Lottery Program revenue. Ticket revenue in fiscal 2002-03 experienced substantial increase largely as a result of a number of large Super 7 jackpots, which created very strong national and regional interest and play. Activity in 2003-04 returned to more historical levels.

Reduced operating costs played a significant role in the increased Video Lottery Program revenue in 2003-04. The 2003-04 fiscal year had a full twelve month benefit of the Atlantic Lottery Corporation's ownership and operation of the Video Lottery Terminals resulting in a substantial decrease in commission costs. The increased involvement of the Atlantic Lottery Corporation in the Program also provided opportunities for reducing other operating costs, thereby improving bottom line revenue.

Lottery activity in Prince Edward Island in fiscal 2003-04 also provided other benefits to Islanders in addition to those Provincial services directly funded by lottery revenue. Nearly $19.4 million was won by Islanders who played ticket games during the year. A further $6.0 million was also paid out as commissions to retailers and siteholders during the fiscal year. These, mostly small businesses, are located throughout the Province.

Table 1 provides comparative information for Prince Edward Island on gross profit by program type for fiscal years 2002-03 and 2003-04.

HARNESS RACING

The Lotteries Commission continued to provide financial support to the Prince Edward Island harness racing industry in fiscal 2003-04 through the provision of $933,600 in financial input from lottery revenues. The harness racing industry is part of Prince Edward Island's history and culture, as well as a significant component of the Province's economy. It impacts in a positive way in both rural and urban Prince Edward Island.

Hurricane Juan caused substantial damage to the Charlottetown Driving Park in September, 2003. The already aged infrastructure was found in a number of cases to be in such condition that costly replacement rather than repair was necessary. This, combined with a continuing difficult financial situation throughout the industry, saw interested parties in the harness racing industry approach the Provincial Government and the Atlantic Lottery Corporation with a proposal to consider a track gaming model similar to that in Ontario and a number of other provinces. The proposed model would see the substantial upgrading of the track facilities in the Province and the placement of electronic gaming machines at the track venues. A portion of the revenue from the gaming machines would be used for the upgrading and ongoing maintenance of the facilities at the tracks and for increasing purse amounts in an effort to achieve a sustainable and viable industry. At year end, the many stakeholders involved in the harness racing industry were discussing and considering the gaming proposal for the Island's tracks.

TABLE 1

ALLOCATION OF GROSS PROFIT BY

GAME TYPE - PRINCE EDWARD ISLAND

(MILLIONS)

	2004			2003		
	Video Lottery $	Ticket Games $	Total $	Video Lottery $	Ticket Games $	Total $
Gross ticket sales	-	34.2	34.2	-	38.5	38.5
Net video lottery receipts	18.8	-	18.8	15.7	-	15.7
	18.8	34.2	53.0	15.7	38.5	54.2
Direct Expenses:						
Prizes on ticket sales	-	19.4	19.4	-	20.9	20.9
Commissions	3.5	2.5	6.0	5.1	2.7	7.8
Ticket printing	0.0	1.0	1.0	0.4	1.0	1.4
	3.5	22.9	26.4	5.5	24.6	30.1
Gross Profit	15.3	11.3	26.6	10.2	13.9	24.1

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

1. COMMISSION ESTABLISHED

The Lotteries Act (L.P.E.I. 1976, Cap. 20), enacted by the Legislative Assembly at its 1976 Session and given Royal Assent on 22 April 1976, provided for the establishment of a P.E.I. Lotteries Commission. The Act was proclaimed via Order-in-Council No. EC673/76 for effect on 24 July 1976.

2. OFFICERS AND MEMBERS

As of March 31, 2004, the members and officers of the P.E.I. Lotteries Commission were the Honourable Mitch Murphy, Chair, and Michael L. O'Brien, Vice-Chair. The position of Secretary-Treasurer was vacant.

Mr. Michael O'Brien and Mr. Ginger Breedon were Prince Edward Island's representatives as Directors on the Atlantic Lottery Corporations's Board of Directors.

3. BYLAWS OF THE COMMISSION

In addition to the requirements of the Lotteries Act, the Commission is governed by its Bylaws which were approved by the Lieutenant Governor in Council on 26 August 1976 via EC794/76.

4. AGREEMENTS

As provided in Section 7 of the Act, subsections (b) and (c), the Commission has recommended three agreements for the consideration of the Lieutenant Governor in Council, all of which were approved and subsequently entered into by the Commission.

1. EC796/76 of 26 August 1976, an agreement with the Provinces of Nova Scotia, New Brunswick and Newfoundland to establish and operate a regional lottery.

2. EC797/76 of 26 August 1976, an agreement for the establishment of the Atlantic Lottery Corporation.

3. EC2000/380 of 4 July 2000, an agreement to amend and restate the unanimous Shareholders' Agreement governing the conduct and management of lottery schemes in the Atlantic Provinces.

5. LOTTERIES OPERATED OR SANCTIONED

The P.E.I. Lotteries Commission did not, itself, directly operate any lotteries during the fiscal year 2002-03. However, a number of lottery games sanctioned by the Commission and developed and managed on behalf of the Commission by the Atlantic Lottery Corporation were in operation during the fiscal year. These included Loto 6/49, Super 7, TAG, Pik 4, Atlantic Choice (Atlantic Keno), Atlantic 6/49, Sports Select, Over/Under and various instant pick and breakopen games.

On-line video lotteries were also available.

6. FINANCIAL REPORT

The Financial Statements of the Prince Edward Island Lotteries Commission, as prepared by the Auditor General's Office, follow as part of this report.

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 2004

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

To the Members of the
Prince Edward Island Lotteries Commission

I have examined the balance sheet of the Prince Edward Island Lotteries Commission as at March 31, 2004 and the statement of operations for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
June 7, 2004

STATEMENT 1

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

BALANCE SHEET

MARCH 31, 2004

	2004	2003
ASSETS		
CURRENT ASSETS		
Due from Atlantic Lottery Corporation Inc.	$ -	$436,777
Due from Province of Prince Edward Island	26,316	-
	26,316	436,777
OTHER ASSETS		
Share in Atlantic Lottery Corporation Inc. - at cost	100	100
Share in Interprovincial Lottery Corporation - at cost	1	1
	101	101
	$26,417	$436,878
LIABILITIES AND CONTRIBUTED SURPLUS		
CURRENT LIABILITIES		
Due to Atlantic Lottery Corporation Inc.	$26,316	$ -
Due to Province of Prince Edward Island	-	436,777
	26,316	436,777
CONTRIBUTED SURPLUS - Note 2	101	101
	$26,417	$436,878

(The accompanying notes are an integral part of these financial statements.)

SIGNED ON BEHALF OF THE COMMISSION:

Peter Murphy

Madonna L. Gaudet

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2004

	2004	2003
REVENUE		
Distribution of Atlantic Lottery Corporation Inc. net profit - Note 1	$18,122,221	$17,345,112
EXPENSES - Note 1		
Remittance to Province of Prince Edward Island	17,188,621	16,411,512
Grant to P.E.I. Harness Racing Industry Association	933,600	933,600
	18,122,221	17,345,112
NET OF REVENUE AND EXPENSES	$ -	$ -

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

NOTE TO FINANCIAL STATEMENTS

MARCH 31, 2004

1. Description of Business

The Government of Prince Edward Island operates no lotteries but the Province, through its ownership of the Prince Edward Island Lotteries Commission, is a shareholder in the Atlantic Lottery Corporation Inc. and in the Interprovincial Lottery Corporation. The Atlantic Lottery Corporation Inc. is jointly owned by the four Atlantic Provinces or their lottery agencies, and is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. The Atlantic Lottery Corporation Inc. also markets and handles regionally the products of the Interprovincial Lottery Corporation, which is jointly owned by the ten Canadian provinces. Investments in the Atlantic Lottery Corporation Inc. and in the Interprovincial Lottery Corporation are carried at cost, and their net profits are distributed to the shareholders.

The profit of the Atlantic Lottery Corporation Inc. is distributed to each of the four Atlantic Provinces or their lottery agencies. The distribution to each province consists of the calculated profit in each province as determined by the Amended and Restated Unanimous Shareholders' Agreement.

2. Contributed Surplus

Contributed surplus represents amounts paid by the Province of Prince Edward Island on behalf of the Prince Edward Island Lotteries Commission to the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation in exchange for share capital.